J. C. PENNEY COMPANY

A DELAWARE CORPORATION

Operating
Fifteen Hundred
Twenty Three Stores

FINANCIAL STATEMENT

December 31, 1937

February 28, 1938

TO THE STOCKHOLDERS OF
J. C. PENNEY COMPANY:

The accompanying Balance Sheet and supporting statements give the December 31, 1937 financial position and the result of 1937 operations of J. C. Penney Company and of its present subsidiaries, all of which are wholly owned. Toward the close of the year, one of this company's subsidiaries, Corlon, Inc., was dissolved because, in the opinion of the management, there was no longer a need for its existence. I feel confident that a review of the statements will again offer assurance as to the financial stability of your company, and trust that the year's operating results will prove a source of satisfaction.

Sales for the full year exceeded any prior year of the company's history by a considerable margin. While the total number of stores operated by the company at the year-end was 1,523, or a net increase of 27 over the prior year-end, the increase in aggregate sales was largely effected by the expanded volume of established stores.

During 1937 the company maintained its regular quarterly dividends at $1.00 per share and supplemented such dividends with a year-end extra of $1.50 per share, making a total per share disbursement of $5.50. In view of late 1937 primary market fluctuations and other general uncertainties, it is felt that the stockholders will accept the action as liberal but sound.

The closing Balance Sheet discloses a ration of current assets to current liabilities in excess of 5 to 1 and a working capital position which, in the opinion of the management, is conservatively in line with prospective normal needs.

The merchandise inventory, while slightly larger than the prior year-end, again represents a workable and well balanced stock, properly priced and in line with today's lower merchandise values.

Net profits, after giving effect to customary closing charges and to all price revisions necessitated by lower market prices, were $16,575,164.09, equivalent to $6.52 per share.

This compares with $18,712,488.45 for 1936, equivalent to $7.36 per share.

The decrease in profits resulted largely from circumstances which arose during the latter months of the year. In many merchandise lines cost prices declined sharply and under the company's price policy, required coincidental selling price revisions. This resulted in increased mark-downs. As is obvious, operating costs in many cases are somewhat inflexible and cannot, in a period of such drastic change, be adjusted with equal rapidity.

Present plans call for no relaxation in the efforts of the management to effect all possible sound refinements and improvements in the company's distributing methods. Our constant endeavor is to offer merchandise improved in quality and style at prices within the incomes of the greater portion of the people, and in lines of merchandise indispensable to the normal needs of customers. This is a substantial contribution to the living standards and to the purchasing power of the great mass of the consuming public.

The location of our stores in many small towns and cities is a stabilizing influence in these communities and an important factor in maintaining smaller trading centers against the tendency of good roads and automobiles to centralize trading in the larger cities. Our company has brought wanted merchandise of unquestioned quality and value to hundreds of smaller communities, thus influencing those living in these communities to "trade at home" and thus preventing the disintegration of these smaller business centers.

For our associates we have provided liberal and justified wage scales with unusual opportunities for advancement and, in many instances, for a participation in the earnings of our business. This has been and is reflected in the loyalty and morale of the workers of this company and in the results achieved through their cooperative efforts.

The unquestioned soundness of these fundamental policies and the evident benefits to thousands of associates and to millions of consumers from this type of direct distribution is submitted as the answer to the implications and purposes of those ill-advised attempts to legislate discrimination in the field in which we are engaged.

Your management is facing the future with an essentially cautious attitude because of the uncertainties being felt by many businesses. Nevertheless, we feel that the flexibility of our operating position and the diversification in merchandise lines handled, and in the number of store units operated, permits reasonable adjustments of our operations to the opportunities encountered and offers substantial assurance in the years ahead.

It seems fitting to express again for the stockholders and directors appreciation to the entire group of associates making up the personnel of our company for their efforts and loyalty. These have made possible in a large part the company's accomplishments to date. We feel confident that their endeavors will continue and that we can continue to reward adequately their efforts in the further development of this company.

Respectfully submitted,

E. C. SAMS, President

J. C. PENNEY C

A DELAWARE CORPOR

BALANCE S

As at December

ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 7,371,739.53*
Accounts Receivable — Trade and Miscellaneous		479,356.35
Merchandise, at the lower of cost or market (determined by responsible officials on the basis of physical inventories)		56,657,929.40
Total Current Assets		64,509,025.28
Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:		
Advances	$ 5,195,000.00	
Capital Stock and Surplus	246,146.22	5,441,146.22
Mortgages Receivable		76,808.39
Fixed Assets — at net sound values based on estimated replacement cost at December 31, 1932, plus subsequent additions at cost:		
Land and Buildings	2,276,680.36	
Less Reserve for Depreciation	264,310.42	
	2,012,369.94	
Furniture and Fixtures, less Provision for Depreciation	6,755,603.10	
Improvements to Leaseholds, less Amortization	1,832,649.03	10,600,622.07
Deferred Charges — Unexpired Insurance Premiums, Rent Advances, etc.		724,749.07
		$ 81,352,351.03

NOTE: *After deducting employees' contract compensation due at December 31, 1937 but paid

NEY COMPANY

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NCE SHEET

ecember 31, 1937.

LIABILITIES

Current Liabilities:		
Accounts Payable and Accrued Liabilities		$ 8,141,135.43
Provision for Federal Taxes on Income		3,153,353.14
Total Current Liabilities		11,294,488.57
Reserve for Fire Losses, etc. and Employees' Death Benefits		2,072,269.45
Common Stock, no par:		
Authorized, 3,000,000 shares.		
Issued, 2,543,984 shares		28,122,766.67
Surplus (Earned):		
J. C. Penney Company	$ 39,666,680.12	
Undistributed Surplus of Subsidiaries	196,146.22	39,862,826.34
		$ 81,352,351.03

937 but paid subsequently thereto.

J. C. PENNEY COMPANY

Profit and Loss Account
For the Year Ended December 31, 1937

(Including Profits of Subsidiaries)

Sales		$ 275,375,137.32
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	$ 251,680,978.46	
Maintenance and Repairs	571,474.98	
Depreciation and Amortization (based on December 31, 1932, reduced book value or cost if acquired subsequently)	1,136,342.65	
Taxes other than Federal Taxes on Income	3,354,338.92	256,743,135.01
		18,632,002.31
Discount on Purchases, Interest Received and Miscellaneous Income (Net)		994,787.88
Net Profit before Provision for Federal Taxes on Income		19,626,790.19
Provision for Federal Taxes on Income:		
Normal Tax	2,917,264.99	
Surtax on Undistributed Profits	229,082.94	3,146,347.93
		16,480,442.26
Add 1937 Profits of Subsidiaries		94,721.83
Transferred to Surplus		$ 16,575,164.09*

Note:

*Net Income, as above		$ 16,575,164.09
Common Stock issued at end of year	Shares	2,543,984
Earnings per share of Common Stock, as above		$ 6.52

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1936	$ 37,284,423.03
Deduct Adjustment of prior years' Federal Income Taxes — J. C. Penney Company and Subsidiaries	4,848.78
	37,279,574.25
Add Net Income for 1937	16,575,164.09
	53,854,738.34
Less Cash Dividends:	
Common Stock	13,991,912.00
Surplus at December 31, 1937	$ 39,862,826.34

To the Directors of the
J. C. Penney Company
New York, N. Y.

We have made an examination of the Balance Sheet of the J. C. Penney Company as at December 31, 1937, and of the Profit and Loss and Surplus Accounts for the year 1937. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Balance Sheet and related Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, its position at December 31, 1937, and the results of its operations for the year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.
February 28, 1938.

OFFICERS

J. C. PENNEY
Chairman of the Board

E. C. SAMS	President
A. W. HUGHES	Vice-President
W. A. REYNOLDS	2nd Vice-President
J. I. H. HERBERT	3rd Vice-President and Treasurer
A. J. RASKOPF	Secretary
R. W. TROWN	Comptroller

DIRECTORS

J. C. PENNEY, Chairman

E. C. SAMS	G. H. CROCKER
GEO. H. BUSHNELL	W. A. REYNOLDS
J. I. H. HERBERT	EARL A. ROSS
L. W. HYER	A. W. HUGHES
LEW V. DAY	F. W. BINZEN